

BUDGET COMMENTS

2003/2004

SEWER

Introduction:

South Tahoe Public Utility District (the District) provides wastewater collection and treatment to more than 17,000 customers throughout the City of South Lake Tahoe and neighboring unincorporated areas.

By state mandate, the District is required to pump its recycled water out of the Lake Tahoe Basin. Annually, the District pumps more than 1.8 billion gallons of recycled water, through a 26-mile export pipeline, to Alpine County, California. Alpine County ranchers use the recycled water for irrigation. The pipeline infrastructure and pumping costs significantly affect District finances.

As part of the District's long-range plans, 1,442 acres of land adjacent to Harvey Place Reservoir in Alpine County is being acquired. This land will give the District additional reliability and flexibility in the future application of recycled water as private ranch lands diminish due to development. The land acquisition

combined with the multitude of necessary infrastructure improvements have resulted in a recommended borrowing of \$12.2 million.

In May 1996, the District began construction to replace the export pipeline which was prone to leaks and located in stream environment zones. To date \$30 million has been invested in export system improvements, including replacement of about 13 miles of pipeline. The last pipeline section scheduled for replacement will begin May 1, 2004. Funding for the pipeline poses a significant challenge. Federal funding amounting to \$10.6 million has been received. To receive the grant, the District committed \$8.7 million of District local matching funds. Of this amount, \$4.7 million is the District's remaining obligation.

The budget reflects a new cost-sharing allocation. In prior years, the sewer fund shouldered 60% of shared costs. Beginning July 1, 2003, shared costs will be split equally between sewer and water. Taking this change into account, the maintenance and operations budget decreased \$169,000, excluding principal and

interest expense. The District's Sewer Enterprise budget is a success in that it responsibly appropriates significant resources to infrastructure without the necessity of a rate increase.

Revenue:

The largest portion of funding comes from the Alpine County borrowing (46%) and service charges (31%).

Revenue budgeted for the fiscal year ending June 30, 2004, totals \$14.5 million, which is a \$726,000 increase from the June 30, 2003, budget. Total service charges in the budget are \$8.2 million.

Property tax revenues amount to nearly \$4.4 million, an increase of \$428,000 from the prior year due to increasing property values.

Connection fee income is budgeted to be nearly \$1.2 million, which is a \$457,000 increase from 2002/03. Connection fees are from residential building, \$831,000, and from commercial building, \$351,000.

The budget also includes \$504,000 in interest income. This represents a decrease of \$110,000 from 2002/03 due to lower

reserves and lower interest rate assumptions.

Expenses:

Operating expenses for 2003/04 total \$14.5 million including interest expense. This is an increase of \$161,000 or 1.09% over the 2002/03 budget. Changes are as follows:

	<u>Amount</u>	<u>Percent</u>
Salaries & Benefits	\$305,000	2.06
Maintenance & Operations	(169,000)	(1.14)
Depreciation	15,000	.07
Interest Expense	<u>10,000</u>	<u>.10</u>
	<u>\$161,000</u>	<u>1.09</u>

Wastewater operations treatment is costing \$6,336 per million gallons. This is significantly less than 1995 costs (adjusted for consumer price changes) of \$6,940 per million gallons. This comparison clearly illustrates the District employees' commitment to controlling costs.

Salaries and Benefits:

Salaries, excluding the Engineering staff (see Capital Outlay), are increasing \$61,000 or 1.6%. The budget includes a

cost of living adjustment (COLA) estimate effective July 3, 2003, for the union, and January 1, 2004, for the management staff, as well as merit raises for newer employees. The management salary adjustment is based on a formula that will bring each management class' compensation to the current statewide average by January 2004.

Benefits, excluding the Engineering staff (see Capital Outlay), are up 17.2%, or \$243,000. This increase is due to medical benefit costs and pension plan changes.

Maintenance and Operations:

Management's goal of a 0% increase to sewer maintenance and operations expense was exceeded. There was a decrease of \$169,000 or 3.4%.

Expected utility decreases are \$125,000 for natural gas costs. Deletion of the Groundwater Master Plan reduced the sewer budget by \$93,000. Increases were budgeted for biosolids disposal for \$90,000 and an increase in the redevelopment (RDA) property tax transfer.

Depreciation:

Depreciation expense is \$4 million, increasing \$15,000 from last year's budget. This .38% increase reflects depreciation of new assets placed in service last year.

Debt Service Expense:

Debt service remained stable. A plan to acquire new debt to finance a land purchase and projects in Alpine County in 2002/03 was delayed. The financing is now planned for 2003/04.

Capital Outlay:

Capital Outlay spending, including the District's Engineering Department, is \$11 million for 2003/04.

About 78% of the Capital Outlay budget is for engineering projects. Major improvements to the wastewater treatment plant, totaling \$4.2 million, are budgeted in 2003/04. Included in the improvements is the completion of the new sludge handling facility. This facility is designed to process sludge so that it is suitable for composting. Also included is a new sludge storage tank for the new handling facility and two clarifier covers which will address odor issues with the District's neighbors.

During the 2003/04 fiscal year, the Engineering Department plans to begin construction on the last section of the export pipeline. This section is nearest the top of Luther Pass Pump Station. The District was forced to push the construction schedule back another year due to unforeseen design issues. A total of \$2.2 million is in the budget for the export pipeline work. Other major capital purchases/projects are a sewer pump station on Gardner Mountain (\$850,000), a sewage interceptor at Wildwood Avenue (\$800,000) and improvements to Alpine County recycled water facilities (\$1,300,000), and land acquisition improvements (\$300,000). The District is also planning on updating the financial software (\$170,000) to a more current platform.

Included Capital Outlay costs are the Engineering Department salaries, benefits, and expenses totaling \$497,000.

Available Funds:

_____The service charges and property tax revenues will fully fund all budgeted operating expense cash outlays. The District has a \$350,000 contingency reserve budget to provide for unforeseen expenses. Net operating income transfers, capital outlay reserves,

and a borrowing for Alpine County projects will fully fund the 2003/04 Capital Projects, and repayment of related debt. The Capital Outlay Reserve will increase \$3.9 million, and at June 30, 2004, the ending Capital Outlay Reserve and Operating Reserve estimates are \$15,187,000 and \$1,961,000 respectively.

BUDGET COMMENTS

2003/2004

WATER

Introduction:

_____South Tahoe Public Utility District (the District) provides water to 13,500 customers throughout the City of South Lake Tahoe and neighboring unincorporated areas.

We're heading into the eleventh successive year of major water system infrastructure spending – drilling one new well, rehabilitating two existing wells, and continuing the replacement of old water lines. To date more than \$26 million has been invested in rebuilding and improving the District's water system. Another \$6.5 million in improvements are planned for this year. These enhancements will continue to dramatically improve the community's water system.

The outcome of the MTBE contamination lawsuit was successful with the District receiving \$69 million in settlements to cover damages to the water system and expensive litigation costs.

The 2003/04 budget includes \$1.7 million in capital projects for new water sources and improved water distribution to tackle this ongoing issue. These projects are funded by the segregated MTBE Contamination Fund which was passed by ordinance to send a clear message that funds secured from MTBE litigation are for MTBE contamination related costs.

The funding for the water system improvements has come from a combination of sources including existing reserves, capital improvement charges, and current operations.

_____The District's 2003/04 Water Enterprise budget is a success in that it responsibly appropriates significant resources to infrastructure, addresses MTBE contamination, absorbs large increases for unfunded mandates, all with no water rate increases for the upcoming year.

Revenue:

A significant portion of the water revenue comes from

service charges (61%). Revenue budgeted for fiscal year ending June 30, 2004, totals \$9.9 million and is up \$385,000 (4%) from the prior year's budget. An increase in interest income (\$681,000) offset by a decrease in grant funding (\$335,000) accounts for 90% of this increase.

Connection fees of \$175,000 are anticipated from single-family residential building and \$72,000 from nonresidential building.

The budget also includes \$1,622,000 of interest earnings on investment of Capital Reserve funds.

Expenses:

A significant change in the 2003/04 budget is the reallocation of costs between the sewer and water fund. In previous years the water fund paid 40% of the shared costs. Beginning July 1, 2003, shared costs will be split equally between the sewer and water fund.

Operating expenses budgeted for 2003/04 total \$7.7 million, including interest expense, and are 10.1% over the 2002/03 budget. The changes are as follows:

	<u>Amount</u>	<u>Percent</u>
Salaries & Benefits	\$611,000	7.9
Maintenance & Operations	190,000	2.5
Depreciation	(39,000)	(.5)
Interest Expense	<u>18,000</u>	<u>.2</u>
	<u>\$780,000</u>	<u>10.1</u>

Water production is costing \$2,479 per million gallons. This is 10.9% more than 1995 costs (adjusted for consumer price changes) of \$2,235 per million gallons.

Salaries and Benefits:

Salaries, excluding the Engineering staff (see Capital Outlay), are up \$349,000. Increases are a result of cost re-allocations with the sewer enterprise fund, cost of living adjustments, and step raises for newer employees.

Benefits, excluding Engineering staff (see Capital Outlay), are up 34% or \$262,000. Increases are again the result of cost re-allocations with the Sewer Enterprise Fund, a 30% increase in medical benefits, and pension plan changes.

Maintenance and Operations:

Management's goal of increasing water maintenance and operations expense 0% was not achieved. Overall maintenance and

operations budget, excluding the Engineering Department (see Capital Outlay), is increasing \$190,000. Included in the increase is \$130,000 for the Tahoe Restoration Act study. One-half of this cost is being funded by grant dollars. Other increases include \$40,000 for power costs and the cost reallocation between the sewer and water funds.

Depreciation

Depreciation expense is budgeted at \$1 million, decreasing \$40,000. This 3.7% decrease is a result of amortization adjustments.

Debt Service:

The District has a LaSalle Bank borrowing from 1999 which was used to finance water projects. This borrowing would not have been needed if the District had been spared the MTBE-related costs. The Water Enterprise Fund also has two other major outstanding debt obligations namely to the former owners of Angora Water Co., purchased in 1983, and the 2001 water revenue refunding bonds. Interest expense and principal payments will be \$590,000 and \$781,000, respectively. Debt service is increasing \$44,000 from the prior year.

Capital Outlay:

Capital Outlay spending, including the District's

Engineering Department, is budgeted for \$6.5 million. Like the sewer fund, most of the capital outlay is for engineering projects (86%). Some major projects to improve water sources scheduled for 2003/04 are Cornelian booster station replacement (\$500,000), Flagpole well (\$500,000), Elks Club well redrill (\$700,000), and South Upper Truckee well redrill (\$500,000). Other projects include the Customer Service Center (\$1,325,000) and water pipeline replacements (\$1.5 million).

Included in Capital Outlay costs is \$479,000 for Engineering Department salaries, benefits, and expenses.

Available Funds:

Service charges and various other income will fully fund all budgeted operating expense cash outlays. The District is budgeting \$250,000 as a contingency reserve to provide for unforeseen expenses. The Capital Outlay Reserve will see a net outflow of \$4.2 million due to the funding of capital projects. At June 30, 2004, ending Capital Outlay Reserve and Operating Reserve estimates are \$6,952,000 and \$1,333,000, respectively. An additional \$36.2 million is reserved for MTBE remediation.